

Message Text

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C O N F I D E N T I A L MADRID 9418

E.O. 11652: GDS
TAGS: PFOR, EGEN, SP
SUBJECT: SPANISH ECONOMY AND ELECTIONS

1. SUMMARY. RICARDO CALLE, UNDER SECRETARY FOR PLANNING IN MINISTRY OF THE PRESIDENCY, CLAIMS GOVERNMENT HAS PLANNED TO HAVE ELECTIONS IN MARCH BECAUSE DELAY BEYOND MARCH WOULD REQUIRE EARLIER IMPLEMENTATION OF ECONOMIC STABILIZATION PROGRAM WHICH PRESENT GOVERNMENT BELIEVES IT HAS INSUFFICIENT MANDATE AND POLITICAL SUPPORT TO UNDERTAKE. UNDER SECRETARY BELIEVES SPANISH PUBLIC WILL VOTE FOR MODERATE, CENTRIST OR CENTER-RIGHT GROUPS IN SPRING ELECTIONS, BUT THAT POLITICAL MAKEUP COULD POLARIZE AND RADICALIZE IF NEWLY-ELECTED GOVERNMENT FAILS TO DEAL EFFECTIVELY WITH SERIOUS ECONOMIC PROBLEMS. PLANNING UNIT IS NOW PREPARING TECHNICAL DATA FOR DEVELOPMENT PLAN FOR NEW GOVERNMENT TO INITIATE BEGINNING 1978. (CALLE PROBABLY IS NOT YET PRIVY TO THINKING IN GOVERNMENT THAT, FOR POLITICAL REASONS, MAY LEAD TO ELECTIONS BEING HELD IN APRIL OR MAY RATHER THAN MARCH. DESPITE GOVERNMENT'S CONTINUING DESIRE TO AVOID MAJOR STABILIZATION MEASURES BEFORE ELECTIONS, CIRCUMSTANCES COULD FORCE IT INTO SOME MUCH MEASURES EARLIER, ESPECIALLY IF ELECTIONS DELAYED.)
END SUMMARY.

2. ON DECEMBER 10, EMBOFFS DISCUSSED ECONOMIC SITUATION AND GOS PLANS WITH RICARDO CALLE, UNDER SECRETARY FOR PLANNING.
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NING, MINISTRY OF THE PRESIDENCY. CALLE INSISTED THAT ELEC-

TIONS WOULD BE HELD ON MARCH 21. MAIN REASON FOR EARLY ELECTION DATE, ACCORDING TO CALLE, IS THAT DETERIORATING ECONOMIC SITUATION WILL REQUIRE STABILIZATION MEASURES PRIOR TO JUNE, AND PRESENT GOVERNMENT BELIEVES IT DOES NOT HAVE MANDATE AND SUPPORT FOR REQUIRED SACRIFICES. SOCIAL PACT NECESSARY FOR WAGE RESTRAINT AND ACCEPTANCE OF TEMPORARY REDUCTION IN REAL INCOME IS IMPOSSIBLE BEFORE ELECTIONS, HE SAID, BECAUSE OPPOSITION WILL NOT AGREE TO CONSULT AND COOPERATE WITH GOVERNMENT.

3. GOVERNMENT HOPES THAT LIMITED ECONOMIC MEASURES INSTITUTED IN OCTOBER WILL PREVENT SERIOUS WORSENING OF SITUATION FOR NEXT FEW MONTHS. HE AND HIS PLANNING OFFICE, HE SAID, HAD PROPOSED MUCH STRONGER MEASURES IN OCTOBER; BUT AFTER SOME 30 DRAFTS AND INPUTS FROM OTHER MINISTRIES, MEASURES WERE WATERED DOWN FOR POLITICAL REASONS. THE PHILOSOPHY OF THE RESULTING MEASURES WAS TO STRIKE A BALANCE UNTIL ELECTIONS BY HOLDING DOWN PRICES OF BASIC PRODUCTS WHILE STIMULATING EMPLOYMENT BY DIRECTING MORE CREDITS TO SMALL AND MEDIUM INDUSTRY. CALLE ADMITTED THAT THERE WAS DANGER A SUBSTANTIAL PORTION OF SUCH DIRECTED CREDITS MIGHT SIMPLY LEAK OUT IN CAPITAL FLIGHT.

4. CALLE SAID THAT IN ADDITION TO PREPARING POLICY PROPOSALS ON CURRENT ECONOMIC PROBLEMS, PLANNING OFFICE IS PREPARING TECHNICAL ASPECTS OF A NEW DEVELOPMENT PLAN TO BE PUT INTO EFFECT BEGINNING 1978 IN PLACE OF FOURTH (1976-1979) DEVELOPMENT PLAN WHICH NEVER IMPLEMENTED. NEW PLAN WILL, OF COURSE, HAVE TO BE ADJUSTED TO REFLECT POLICY VIEWS AND GOALS OF NEWLY-ELECTED GOVERNMENT. ON PROJECTION BEING MADE IS REDUCTION OF CURRENT ACCOUNT BALANCE OF PAYMENTS DEFICIT TO AN ANNUAL AVERAGE OF \$2 BILLION FROM \$3-\$3.5 BILLION LEVEL OF LAST THREE YEARS.

5. CALLE SAID HE IS NOT CONCERNED OVER OUTCOME OF MARCH ELECTIONS. WHILE HISTORY OF LAST 40 YEARS PROVIDES NO EVIDENCE BY WHICH TO JUDGE, HE BELIEVES SPANISH PUBLIC WILL VOTE FOR MODERATE, CENTRIST OR CENTER-RIGHT PARTIES. IN SUPPORT OF THIS VIEW, HE NOTED THAT INCOME OF LABORING CLASS HAS IMPROVED SUBSTANTIALLY OVER PAST DECADE. HE ALSO BELIEVES

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TRADITIONAL MIDDLE CLASS WILL BE INCLINED TO VOTE CONSERVATIVE EVEN THOUGH HE CLAIMS THERE RELATIVE ECONOMIC POSITION HAS WORSENERED IN RECENT YEARS. REAL PROBLEM, CALLE BELIEVES, WILL BE WITH ELECTIONS FOUR YEARS HENCE, SINCE HE FEARS POLITICAL POLARIZATION AND RADICALIZATION IF SERIOUS SPANISH ECONOMIC PROBLEMS ARE NOT DEALT WITH EFFECTIVELY.

6. COMMENT. CALLE CERTAINLY HAS FREQUENT ACCESS TO OSORIO AND

PERHAPS ALSO SUAREZ. HOWEVER, THIS DOES NOT NECESSARILY MEAN HE IS PRIVY TO THEIR CURRENT DELIBERATIONS ON ELECTRIC TIMING. MARCH HAD BEEN TALKED OF AS THE PLANNED ELECTION MONTH, BUT MORE RECENTLY WE HAVE HEARD APRIL OR MAY BECAUSE OF THE DESIRE OF SOME POLITICAL GROUPS FOR MORE TIME TO PREPARE.

7. NOR IS IT CERTAIN GOVERNMENT WILL ABSTAIN FROM FURTHER ECONOMIC MEASURES PRIOR TO ELECTIONS, ALTHOUGH FOR POLITICAL REASONS IT WOULD LIKE TO. THERE IS THE POSSIBILITY THAT SHOULD OIL PRICES BE INCREASED SUBSTANTIALLY LATER THIS MONTH, GOS WILL DECIDE THIS PROVIDES CONVENIENT EXCUSE FOR INSTITUTING MORE RIGOROUS ECONOMIC MEASURES EARLIER THAN IT HAD PREVIOUSLY PLANNED. IT COULD ALSO TAKE THIS DECISION IF, FOR WHATEVER REASON, A MORE RAPID DETERIORATION OF THE ECONOMY THAN IT HAD ASSUMED OCCURED, PARTICULARLY IF THIS WERE COUPLED WITH A MOVEMENT OF THE ELECTION DATE TO APRIL OR MAY.
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